

Turning Gadflies into Allies
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Multinational companies are the driving force behind globalization, but they are also the source of many of its most painful consequences, including currency crises, cross-border pollution, and overfishing. These remain unsolved due to two kinds of failures. For one, such issues are, by their nature, beyond the scope of individual governments to avoid or resolve. For the other, transnational organizations, such as the World Bank, the International Monetary Fund, and the World Trade Organization, have proved unequal to the task.

Into the breach have leaped not-for-profit, nongovernmental organizations (NGOs) of concerned citizens. Realizing that news of cross-border problems can also cross borders, NGOs have sponsored angry protests in Seattle, Davos, Göteborg, and Genoa. While these are perhaps the best-publicized demonstrations of nongovernmental organizations' activism, they are hardly the only ones. NGOs have seized on all forms of modern persuasion—from advertising to boycotts and even sabotage—in order to influence public sentiment toward global traders, manufacturers, and investors. The NGOs hope that they can effect policy changes in this way.

In many NGOs' view, companies that incorporate offshore to avoid taxes or that send jobs overseas demonstrate a lack of allegiance to their country of origin. At the same time, by failing to bring with them the labor and human rights standards prevailing in the developed world, these companies appear unconcerned with the welfare of the countries where they do business. Yet their economic power frustrates official efforts to control their activities.

Such views can harden into a purely oppositional stance. Guy Taylor, a spokesperson for London-based Globalize Resistance, says his organization has as its aim a world free of corporations and that it would welcome their destruction. Yet while an anti-corporate backlash continues to grow, many influential NGOs are increasingly composed of serious-minded, educated professionals who pursue a more moderate agenda. While NGOs may not forswear tough public campaigns against companies they think are acting selfishly or shortsightedly, lately they have become more willing to enter into negotiations with them.

NGOs like these have the skills, resources, insights, and depths of popular support that make it unwise for companies to confront them head-on. For example, in 2001, NGOs obliged Aventis to spend more than \$500 million on buying back genetically modified Starlink corn from growers, ultimately leading it to spin off its agricultural business. NGOs have also virtually closed the EU market to the agricultural biotech industry. And in the face of a public relations disaster that nongovernmental organizations such as Doctors Without Borders and Oxfam International incited, GlaxoSmithKline, Merck, Bristol-Myers Squibb, Roche, and other pharmaceutical companies withdrew a lawsuit challenging a South African law that undercut patent enforcement of their AIDS drugs.

Those companies might have avoided such outcomes by partnering with NGOs instead of flatly opposing them. Doing so would have offered the companies the chance not only to avoid costly conflict but also to use NGOs' assets to gain competitive advantage. I've found evidence of NGOs' receptiveness to such an approach in case studies, archival data, and in-depth interviews with executives from Greenpeace, the World Wildlife Fund, the Marine Stewardship Council, and other NGOs. I've also spoken with frontline managers and the CEOs of companies such as Shell, ExxonMobil, and Monsanto, who attested both to the costs of being attacked by NGOs and to the challenges and benefits of partnering with them.

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So far, however, most companies have proved ill equipped to deal with NGOs. One reason is that NGOs attacks pose very different challenges from those mounted by business competitors. Large companies know how to compete on the basis of product attributes and price. But NGO attacks focus on production methods and their spillover, often noneconomic effects. Similarly, NGOs are able to convert into liabilities companies' standard competitive strengths such as size and wide market awareness of their brands. That's because the wealthier and better known a company is, the juicier the target it makes. (See the box that lays out businesses at risk.)

NGOs have developed special, often Internet-enabled, capabilities for turning the tables in these ways. For one thing, NGOs are ferocious networkers. It is not out of the ordinary for an NGO in, say, Bangalore to share information and coordinate strategies with counterparts in Boston and Budapest. One favorite NGO strategy is "swarming"—an attack on a single corporation by a host of small, modestly funded advocacy groups. Corporations like to think of themselves as operating on "Internet time," but NGOs are much nimble. Issue-centered global coalitions of hundreds of NGOs can materialize and mobilize within days.

Emboldened by their successes, NGOs continue to take on, or form around, new causes. The number of NGOs with global concerns has quadrupled this past decade, a fact partly reflected in the twentyfold increase over the last ten years in mentions of NGOs generally in the Wall Street Journal and the Financial Times. To such advocacy groups and independent watchdog organizations, simple compliance with all applicable laws is not the end of a corporation's responsibilities—if the laws themselves are insufficiently protective. To NGOs' way of thinking, they have a permanent mandate to fill the regulatory vacuum. In the face of such numbers and expectations, companies would be well advised to look for common ground.

Strengths Worth Coveting

Nongovernmental organizations have four strengths that corporations would be well served to heed. They are legitimacy, awareness of social forces, distinct networks, and specialized technical expertise. The public bestows the first, and the second is a function of the NGOs' mission. The latter two refer to competences that NGOs have developed by venturing where corporations usually don't go.

Legitimacy. According to a poll conducted by the Edelman public relations firm, both Americans and Europeans said they found NGO spokespersons more credible than either a company's CEO or PR representative. Some fraction of the public, especially in Europe, sees NGOs as dedicated first and foremost to serving an aspect of the general social welfare. While many companies produce direct benefits to society—those in the pharmaceutical and food industries being obvious examples—the public interprets those benefits as by-products of the companies' profit motive rather than as the direct result of their desire to feed or care for their fellow human beings.

Suspicion of companies' motives can become so entrenched that the soundest solutions aren't given a fair hearing. The fate of Shell Oil's Brent Spar storage and tanker offloading system is one such example. After conducting a thorough analysis of what to do with the platform, Shell concluded that towing it into the deep water of the North Atlantic and then sinking it was the best alternative from an environmental standpoint. (It would also be £40 million cheaper than dismantling the platform on land.) Outraged by the plan, Greenpeace organized a boycott of Shell products in the UK and sent protesters to occupy the facility. Ultimately, Shell succumbed to public pressure and hauled the rig ashore for dismantling. Greenpeace subsequently admitted that it had overstated the amount of oil residues in the tank and thus the harmful environmental effects of scuttling.

Awareness of Social Forces. Companies live and die by the markets they compete in; NGOs, by the ebb and flow of people's concerns about the safety and fairness of conditions worldwide. Although the gulf between the two arenas is large, businesses can learn much from NGOs' attentiveness to and influence on shifts in common beliefs and mores that in turn shape consumer demand. For example, in the early 1970s, years before organizations such as People for the Ethical Treatment of Animals were organizing boycotts of fur apparel, and guerrillas from the Animal Liberation Front were infiltrating milk farms to free the animals caged there, groups such as Animal Rights International had highlighted industrial conditions afflicting animals generally. If fur, cosmetics, poultry, and fast-

food companies had noted the public's first stirrings of humane concern, they could have modified their practices and avoided the public's first stirrings of bad publicity and economic harm.

Distinct Networks. Most companies' networks primarily consist of organizations that would belong among Michael Porter's five forces model of buyers, suppliers, rival firms, new entrants, and substitute producers. NGOs' networks, by contrast, mostly consist of other NGOs, as well as donors, regulators, legislators, and public-interest lobbyists. These networks are often quite extensive and dense, since many NGOs are small, lack resources, and must form coalitions to be effective. Partnering with NGOs is an excellent way to gain access to the information circulating within their networks.

Specialized Technical Expertise. NGO members are often thought of as young, unsophisticated malcontents. In reality, the more established NGOs are filled with lawyers, policy analysts, and scientists. Half the employees of the largest, most influential environmental NGOs have master's or law degrees, and 10% to 20% have doctorates. Many of them possess knowledge that the companies being targeted lack. The NGOs may know about a new technology that is superior only in its environmental impact and therefore escaped businesses' attention. Or they may have noticed a judicial ruling in an out-of-the-way jurisdiction that may one day set a standard of conduct nationwide. Out of fear that their own research into ways of mitigating harm might establish liability, companies are sometimes willfully ignorant of developments that NGOs are aggressively pursuing.

No More No-Go

There are five primary benefits to partnering with NGOs:

Head off trouble. Although NGOs are known for engineering confrontations, the more established of these increasingly recognize that negotiating directly with companies is more efficient than putting on a negative campaign in hopes that the public will then pressure government officials or the companies themselves to correct the situation they've created. From the companies' standpoint as well, the involvement of motivated experts in place of committed adversaries makes negotiation a more promising alternative.

As soon as the first signs of disagreement with a project proposal are in evidence—whether it be a letter to the editor, a petition, or a picket line—the company under scrutiny should invite the critics in for a discussion. Even better, companies should learn the concerns of the NGOs that follow their industry and sound them out while a potentially controversial project is still on the drawing board.

Such is the method currently employed by Shell, which regularly brings together interested groups such as the World Wildlife Fund, Amnesty International, and local NGOs at the initial stages of project planning and evaluation. As one senior Shell executive stated, "[Brent Spar] led us to a new approach in which we try to prevent crises through open dialogue. The discussions aren't always easy, but there is a reasonable amount of mutual trust and understanding between us now." An added benefit, according to the executive, is that the company now has an open channel of communication with the NGOs that attacked it in earlier controversies. If consultations occur regularly instead of during times of crisis, confrontation is less likely.

Consultations should include all interested parties, all gathered around the same table. That way, the party urging an NGO to soften its demands may not be the company itself but a fellow NGO. After all, different NGOs represent different interests. Some groups focus on human rights, some on the protection of endangered species, some on community concerns. When a large-scale project produces diverse results, certain NGOs can end up favoring it and others opposing it. For instance, a factory being planned might bring jobs to the local population but acid rain to the adjoining state. Two NGOs could assess the hazards and benefits differently, even though their networks overlap. Private negotiation is preferable to public demonstrations, especially when it concerns projects that have not yet been made public. The two have trouble coexisting, since public posturing by either party can erode the trust and candor that are essential for progress to occur in private.

If a company's reputation turns out to be bad enough, most NGOs will refuse to negotiate with it for fear they will lose their bona fides. Some may be willing but will keep quiet about it. One environmental NGO I know well has a partnership with a global fast-food corporation. The NGO provides it with technical guidance on reducing waste. Many environmentalists think its standard practices place it beyond the pale, so the NGO does not talk about the partnership. As a senior executive of the NGO tells it, "We think this partnership is a good thing. It accords with our mission. But not all of our supporters would be thrilled at the association. We don't lie about it, but it just isn't an activity that we advertise."

Companies with decent records that acquire a reputation for approachability will raise their standing among responsible NGOs generally. And such companies will obtain valuable exposure to NGOs' concerns and ways of thinking.

Accelerate innovation. In the absence of a dire competitive threat, most companies are content to make incremental improvements to their processes or products. By focusing on the wider effects of companies' practices rather than on their costs or profitability, NGOs are able to demand more of an enterprise than it sometimes demands of itself. The result can be radical solutions that improve some aspect of society or the environment while also increasing competitiveness.

The creation of a market for liquefied petroleum gas (LPG) refrigerators occurred in just this way. In response to the Montreal Protocol's call for eliminating ozone-destroying chlorofluorocarbons by 1996, the chemical industry encouraged appliance makers to replace them with hydrochlorofluorocarbons (HCFCs), greenhouse gases with less ozone-destroying potential. DuPont and ICI, the specialty product and paint developer, invested more than \$500 million in research into HCFCs and facilities for manufacturing them.

But in 1991, Greenpeace convinced DKK Scharfenstein, an appliance manufacturer in eastern Germany, to develop a refrigerator based on LPG. (It didn't hurt the company's receptiveness that it was on the verge of bankruptcy and that LPG is far less expensive than standard refrigerants.) The environmentally conscious German consumer market embraced DKK Scharfenstein's refrigerators containing the new technology. By 1994, Bosch and Liebherr, two of Germany's largest appliance makers, had moved almost exclusively to LPG-based refrigerators. Today, refrigerators with LPG technology dominate the markets in many European countries.

Foresee shifts in demand. NGOs often lead social movements. They detect latent but burgeoning concern about an issue, which they then amplify. New norms and values emerge that will, eventually, influence consumers' tastes. Ultimately, they can endanger entire industries. For example, the nuclear energy and genetically modified food industries have become embattled and shrunken at least in part because of NGO-sponsored campaigns highlighting the dangers they pose. Such movements can also direct consumers to substitutes that become the basis of new growth industries.

Take the \$10 billion organic foods business, which has been enjoying annual growth rates of 20% to 30% for the past decade. By the time Monsanto and other companies began introducing genetically modified foods to the European market in hopes of launching their own kind of growth industry, a public already traumatized by mad cow disease had become acutely conscious of the safety and purity of the food it ate. Then NGOs such as Friends of the Earth and Greenpeace and other insects, dangers of cross-pollination and the threat to butterflies and other insects.

Flush with their success in the United States (where, for example, half the soybean crop is genetically modified), the companies producing genetically modified foods failed to take the true measure of Europeans' resistance. Within just a few years, government regulation and public distaste had driven genetically modified foods off Europe's store shelves. By consulting with NGOs, producers of these foods could have avoided investing in a market that was simply not interested and saved themselves billions of dollars.

NGOs are good at sensing shifts in taste and values. They should be, since they are usually born during one of those shifts and depend for their survival on keeping up with them. (The rise and fall of an NGO's funding tends to reflect the extent of the public's alarm about the sorts of issues that

an NGO addresses.) But NGOs don't simply respond to those shifts. In a positive feedback loop, they help redirect and control them. By staying close to groups that are expert at following and shaping public opinion, companies get a leg up, either in their product development or their marketing.

Shape legislation. Through its tax policies, regulation of competition, grants of patent protection, and promulgation of labor and environmental standards, to name just some of its powers, government is perhaps the greatest nonmarket force shaping industry. NGOs have access to like-minded legislators and regulators that even the best-connected corporate lobbyists may not know well. Often, NGOs hear of behind-the-scenes maneuvering or legislative initiatives brewing long before they reach the committee level. And they are sometimes willing to report these to companies they trust. The result is usually better-informed legislation.

Some NGOs are formidable lobbying organizations in their own right. As a World Wildlife Fund executive in Brussels explained to me, "When I speak with EU lawmakers, I can reasonably claim to be speaking on behalf of 5 million fee-paying members. Politicians listen." Thus, by working with NGOs, companies can have a greater impact on future legislation than they would if they were speaking strictly on behalf of their own economic interests and in opposition to what may be society's well-being. An appreciation of the other side's perspective permits the brokering of interests that often precedes the writing of new law. Both companies and NGOs know that they can gain far greater influence by bringing an opponent into their coalition than by adding yet one more industry member or supporter.

Set industry standards. Cooperating with NGOs gives companies a chance not only to avoid various kinds of trouble but also to reshape their industry, sometimes for their own benefit. They can do this by establishing new technology standards, as DKK Scharfstein happened to do when it developed its new kind of refrigerator. These technology standards then become the basis of new labor or environmental standards, which are enforced either by government mandate or market preference.

Unilever pursued this strategy in its groundbreaking partnership with the World Wildlife Fund. The two organizations joined forces to deal with a serious decline in fisheries around the world. Both knew that voluntary restraint on the part of some fleets would have no effect on the number of fish caught, since the other fleets would increase their catches accordingly—a classic problem of the commons. Yet all of them would suffer economically as the size of their catches shrank or their voyages ranged farther and lasted longer. The two organizations got together in 1996 to develop precise standards for responsible and sustainable fishing practices. Since its founding in 1999, the Marine Stewardship Council has accredited more than 100 companies, in 20 countries, that adhere to its standards. Accreditation gives those companies the right to put the MSC logo on their products.

In collaboration with NGOs, industries ranging from coffee production to clothing manufacturing to forestry have established similar certification programs. Aside from protecting the natural resources on which participating businesses depend, the programs have in effect created categories of sought-after products defined by the label they carry. Environmentally minded consumers, for instance, will prefer a can of tuna labeled "dolphin free" over one simply labeled "light tuna."

A reputation for advancing the common good is not the only benefit that accrues to first movers. By setting demanding standards, they present their competitors with a dilemma: Either invest large amounts of capital in meeting those standards or face condemnation for refusing to do so. And for would-be attackers outside the market in question, standards can serve as barriers to entry.

If you dominate your market, you might want to set a technical standard that your less well-capitalized competitors would have to struggle to afford, or that applies to an area in which they would prefer not to compete. If you don't dominate your market but deploy a technology that is safer or cleaner than your rivals', you may want to work at getting that technology adopted as the new regulatory standard. NGOs should be willing to assist you in this.

Being a first mover allows you to generate standards that are rational, practicable, and uniform. When markets fall into line behind such standards, they reduce the danger that more than one jurisdiction or regulatory body, each with its own idiosyncratic notions, will step in. In the United States in particular, where the 50 states as well as the federal government often exercise regulatory oversight, compliance can be difficult and expensive when a single industry standard does not prevail.

A caveat is in order. Credible NGOs will often insist on higher standards of behavior than a firm left to its own devices would choose. In short, an NGO endorsement may not come cheaply.

Even when partnerships with NGOs are possible, they carry their own risks. First, if your company interacts with NGOs, it is likely providing them (and, by extension, your competitors and regulators) with sensitive information. Knowledge of R&D projects, strategic plans, and internal audits may help NGOs be better partners, but it might also make them dangerous ones. Just as companies have disclosure policies for joint ventures, they should have strict guidelines for partnerships with NGOs.

Second, partnering with NGOs, and advertising it, can draw stricter scrutiny from the public, the press, regulators, and so on than your company formerly received. A lapse that earlier would not have been noteworthy will suddenly call into question your company's sincerity, making further cooperation with NGOs difficult. Worse, cynics are likely to accuse your company of being interested exclusively in image building. CorpWatch, a corporate watchdog, gives out so-called Greenwash Awards to corporations that "put more money, time, and energy into slick PR campaigns aimed at promoting their eco-friendly images than they do in actually protecting the environment."

In short, an overriding interest in good public relations can have the perverse result of actually damaging your company's reputation.

Partnering with an NGO requires nothing less than a change in mentality. In my experience, otherwise highly competent executives find themselves at sea when they venture into the sociopolitical realm, which operates according to its own set of rules. Ask an executive his ultimate responsibility, and he will probably say, "Maximize shareholder return." NGOs—with fundamentally different assumptions about the free market and the role of corporations in society—will see that answer as the problem. And they will act accordingly.

Just as most progressive NGOs take into consideration companies' economic realities when they work to formulate their goals, companies must incorporate an understanding of NGOs' values and concerns into their ordinary cost-benefit calculations. If they do, they will be better prepared when NGOs, invited or not, arrive on their doorstep.

Your business is at risk if...

offers lifesaving or life-threatening products

(such as pharmaceuticals, arms)

confronts changing social mores

(such as fashion, alcohol, tobacco)

produces significant spillover effects

(such as mining, heavy manufacturing, waste management)

enjoys high brand awareness

(such as clothing, food and beverage, automotive)

is based on new technologies

(such as genetic engineering, personal-data collection)

does business in different regions with differing ethical or social norms

(such as textiles and clothing, oil and gas, forestry)

Your Business Is at Risk If It::; Textbox; The Four NGO Resources That Companies Can Use to Gain Competitive Advantage; Table